COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1113-01
Bill No.: HB 579
Subject: Taxation and Revenue - Income; Revenue Department
Type: Original
Date: February 26, 2013

Bill Summary: This proposal would modify several provisions related to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	($61,522,157)	(Less than $123,148,036) to Unknown	(Less than $184,354,920) to Unknown
Total Estimated Net Effect on General Revenue Fund	**($61,522,157)**	**(Less than $123,148,036) to Unknown**	**(Less than $184,354,920) to Unknown**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 16 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	$0	More than $100,000	More than $100,000
Parks, and Soil and Water	$0	More than $100,000	More than $100,000
School District Trust	$0	More than $100,000	More than $100,000
Total Estimated Net Effect on Other State Funds	**$0**	More than $300,000	More than $300,000

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 16 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	1	5	5
Total Estimated Net Effect on FTE	**1**	**5**	**5**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government *	**$0**	**More than $100,000**	**More than $100,000**

* expected to exceed $1,000,000.

FISCAL ANALYSIS

ASSUMPTION

Section 32.070, etc., RSMo. Streamlined Sales Tax Program:

Officials from the **Department of Revenue (DOR)** assume these provisions would authorize and require the implementation of the Streamlined Sales Tax Program in Missouri. Revenue from the Streamlined Sales and Use Tax Agreement Act that exceeds the amount of revenue that would have been collected if the program were not effective would be deposited in the Streamlined Sales and Use Tax Agreement Special Fund created in this section and appropriated solely for approved purposes. The Department of Revenue would track and report the collections generated under this act.

ASSUMPTION (continued)

The legislation would create the Streamlined Sales and Use Tax Agreement Special Fund which consists of money collected under this section. The fund would be a dedicated fund and, upon appropriation, money in the fund would be used solely for replacing any revenues lost as a result of the reduction in the rate of tax imposed on the Missouri taxable income of corporations in this proposal.

Oversight notes that the reduction in corporate income tax rates in Section 143.071 of this proposal substantially exceeds the amount of anticipated revenue from the Streamlined Sales Tax Program. For fiscal note purposes, Oversight will include the estimated Streamlined Sales Tax Revenue in the General Revenue Fund.

The Department of Revenue response further listed the provisions in the proposal and described the anticipated effect those provisions would have on current sales tax systems in Missouri. Most significantly, the DOR response indicated that sales tax exemptions would be standardized on a statewide basis. DOR officials stated that this would not be likely to have a significant fiscal impact on General and Total State Revenues. Local governments could have losses if they had opted out of sales tax holidays, but uniform rules for the application of sale taxes to transactions could generate additional revenues for local governments which do not have a use tax. DOR officials did not provide an estimate of additional state revenues for the Streamlined Sales Tax Program.

For fiscal note purposes, **Oversight** will assume the potential revenue reduction for local governments due to the change to a statewide mandatory tax exemption policy and the potential revenue increase for local governments from the uniform application of taxability rules would not significantly change the overall positive impact to local governments from the Streamlined Sales Tax Program.

ASSUMPTION (continued)

Administrative impact

DOR officials assume that Collections & Tax Assistance (CATA) would require one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually to the delinquent tax call center plus CARES license and equipment; one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually to the non-delinquent call center, plus CARES license and equipment; one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the tax assistance offices, plus CARES license and equipment for the Jefferson City tax assistance office.

DOR officials did not provide a separate cost estimate for the Streamlined Sales Tax Program. The DOR cost estimate to implement this proposal included eight additional employees for the two provisions which DOR officials assumed would result in an additional workload for DOR staff. The total with employees, benefits, and related equipment and expense was $294,568.

Oversight assumes the Streamlined Sales Tax provisions in this proposal could be implemented with four additional employees.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly $6,000.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

IT impact

DOR officials provided an estimate of the IT cost to implement the Streamlined Sales Tax Program of $109,066 based on 4,032 hours of programming to make changes to DOR systems.

Oversight will use the DOR estimate of IT cost.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assumed the proposal would not result in additional costs or savings to their organization. BAP officials provided the following analysis of the proposal:

This proposal would require the adoption and implementation of the Streamlined Sales Tax Agreement; the proposal would become effective Jan. 1, 2015. BAP officials cited two studies of the state and local revenues that Missouri might gain from collecting sales tax on e-commerce and noted the studies provided an estimated range of $108 million (Eisanach & Litan, Feb. 2010) and $210 million (Bruce, Fox, & Luna, April 2009). Both studies are limited to the gains from e-commerce, and do not attempt to estimate other remote sales.

BAP officials noted that remote sellers would be able to remit sales tax under this agreement and estimated that this proposal would generate at least $10 million in Total State Revenues annually, of which $7 million would be due to the General Revenue Fund. However, the full amount may not be collected during the first year, due to the administrative processes of becoming a full member state of the SSTA.

Oversight has reviewed the studies cited by BAP and we noted that there are significant differences between the two studies in the methodology used to estimate the level of internet and other remote sales, the proportion of remote sales which would be taxable, and the current level of compliance with existing tax provisions.

The Bruce, Fox, and Luna report suggests that approximately 25% of sales taxes due on e-commerce are uncollected, and that sales tax collections on e-commerce were $26.1 billion for the year 2010. This rough estimate of the uncollected sales tax would indicate that $8.7 billion was uncollected for the United States. If 1.8% of the $8.7 billion was due the state of Missouri, the additional revenue would amount to $156.6 million. The Eisenach and Litan report suggests only $3.8 billion in uncollected sales tax on e-commerce; 1.8% of that amount attributable to Missouri would be $70.2 million.

ASSUMPTION (continued)

Information reported by the United States Census Bureau indicates that online retail sales grew at an average rate of 20% per year for the years 2000 to 2007, with lower growth rates for 2007 to 2009. A report by marketing and information technology consultants Forrester Research projected a 10% annual growth rate for the years 2009 through 2015, with online sales accounting for 11% of total retail sales (excluding groceries) by 2015.

Oversight was recently provided an estimate of Streamlined Sales Tax Program revenue by officials from the Streamlined Sales Tax Governing Board. That estimate was based on comparing population and per capita income information for Missouri with the same information for states currently participating in the Streamlined Sales Tax program. Based on those calculations, Streamlined Sales Tax Governing Board officials estimated that those Missouri state funds which receive sales tax revenues would collect an additional $13.7 million in the first full year of operation.

Streamlined Sales Tax Governing Board officials stated that the program is currently voluntary; and the member states have agreed to simplify their sales tax programs and contract with third-party transaction processors who collect and remit sales taxes to the member states. Participating multistate retailers agree to collect and remit sales taxes to member states, typically in exchange for an amnesty on prior uncollected sales and use taxes.

Oversight assumes the Governing Board estimate is the most reasonable estimate of potential additional revenue under the current voluntary program. Additional revenue could become available in the future if the United States government approves law changes to make state sales tax laws enforceable on interstate sales.

ASSUMPTION (continued)

The $13.7 million in additional revenue would be due to the following state funds, and **Oversight** has also provided an estimate of additional revenues to local governments.

Entity	Tax Rate	
General Revenue Fund	3.000%	$9,738,000
School District Trust Fund	1.000%	$3,246,000
Conservation Commission Fund	0.125%	$324,600
Parks, and Soils Fund	0.100%	$405,800
Local Governments *	Average 3.800%	$12,334,900
Total	NA	$26,049,300

* The average rate for local sales and use tax is calculated based on tax revenues reported by the Department of Revenue for the year ended June 30, 2010.

For fiscal note purposes, **Oversight** will indicate additional revenue in excess of $100,000 per year for those state funds that receive sales tax revenues, and for local governments.

Officials from the **Department of Conservation**, the **Department of Natural Resources**, and the **Department of Transportation** deferred to the Department of Revenue for an estimate of the fiscal impact from these provisions.

Section 143.071 RSMo. Corporate Income Tax:

Officials from the **Department of Revenue** assume these provisions would revise the corporate income tax rate. The current corporate income tax is 6 ¼% of Missouri taxable income. Beginning January 1, 2013 and ending December 31, 2013 the corporate income tax would be 5 ¼% of Missouri taxable income. Beginning January 1, 2014 and ending before December 31, 2014, the corporate income tax rate would be 4 ¼% of Missouri taxable income. Beginning January 1, 2015, the corporate income tax rate would be 3 ¼% of Missouri taxable income.

ASSUMPTION (continued)

Fiscal impact

For calendar year 2010, Missouri corporate taxpayers reported $5.6 billion in taxable income and $349 million in tax. Based on that revenue of $349 million, the Department estimated the following reduction in corporate income tax:

2013 - $ 56 million
2014 - $ 112 million
2015 - $ 168 million

Administrative impact

DOR officials stated that DOR would need to make form changes and DOR and OA - ITSD (DOR) would need to make programming changes to various tax systems.

DOR officials assume Corporate Tax would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 7,800 additional errors generated, plus CARES license and equipment, and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,600 additional pieces of correspondence generated, plus CARES license and equipment.

DOR officials did not provide a separate cost estimate for the Streamlined Sales Tax Program. The DOR cost estimate to implement this proposal included eight additional employees for the two provisions which DOR officials assumed would result in an additional workload for DOR staff. The total with employees, benefits, and related equipment and expense was $294,568.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly $6,000.

Oversight also assumes that virtually all corporate filers would have returns prepared by a paid preparer or corporate officer. Accordingly, the number of calculation errors would be significantly reduced over previous years and the DOR estimate of additional FTE may be overstated. Oversight assumes this proposal could be implemented with one additional FTE.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employee to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

IT impact

DOR officials assume the IT cost to implement these provisions would be $54,533 based on 2,016 hours of programming to make changes to DOR systems.

Oversight will use the DOR estimate of IT cost for fiscal note purposes.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assumed the proposal would not result in additional costs or savings to their organization. BAP officials provided the following analysis of the proposal:

This proposal would reduce the corporate tax rate over three years, from 6.25% to 3.25%. In FY 2012, $275.6M in net corporate taxes was received. Notwithstanding any inflationary growth, this proposal would reduce General and Total State Revenues as in the chart below:

Year	Corporate Tax Rate	Corporate Income Tax Revenue	Revenue Reduction
FY 2012	6.25%	$275.6	$0.0
FY 2014	5.25%	$231.5	$44.1
FY 2015	4.25%	$187.4	$88.2
FY 2016	3.25%	$143.3	$132.3

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic Policy Analysis and Research Center (EPARC)** provided this simulation of the impact of these provisions:

EPARC officials noted that this proposal would reduce the corporate income tax rate from 6.25% to 5.25% in 2013, to 4.25% in 2014, and then to 3.25% in 2015. The latest 2010 corporate income tax data indicates an aggregate liability of $383.905 million. Using this figure as our baseline and reducing the corporate tax rate to 5.25%, we see the corporate tax liability reduces to $322.479 million for 2013. Further reducing the corporate tax rate to 4.25%, we see the corporate tax liability reduces to $261.055 million for 2014. Further reducing the corporate tax rate to 3.25%, we see the corporate tax liability reduces to $199.630 million for 2016.

Oversight will use the EPARC estimate of impact for the corporate income tax rate reductions. Oversight assumes the 2013 rate reduction would be reflected on 2013 tax returns filed in 2014 (FY 2014).

Year	Corporate Tax Rate	Corporate Tax Revenue	Reduction in Revenue
Baseline	6.25%	$383.905	NA
2013 (FY 2014)	5.25%	$322.479	$61.426
2014 (FY 2015)	4.25%	$261.055	$122.850
2015 (FY 2016 and following)	3.25%	$199.630	$184.275

(Numbers in millions of dollars.)

Section 32.086, RSMo. Department of Revenue Collection Fee on Local Sales Taxes:

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assumed the proposal would not result in additional costs or savings to their organization.

BAP officials noted the provisions would create a 1% collection fee for local sales taxes collected by DOR. This fee would be deposited in the General Revenue Fund to offset Department of Revenue costs. This provision would increase General and Total State Revenues by an unknown amount.

ASSUMPTION (continued)

Oversight notes that although most local sales taxes collected by the Department of Revenue are currently subject to the one percent collection charge, the proposal includes a provision which would make all local sales tax collections subject to the one percent charge.

Oversight will include unknown additional revenue for the 1% collection fee for the General Revenue Fund for FY 2015 and FY 2016, and a corresponding reduction in revenues for local governments, for the additional sales tax collection charges.

Proposal as a whole responses

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

FISCAL IMPACT - State Government	FY 2014	FY 2015	FY 2016
GENERAL REVENUE FUND			
Additional revenue - DOR			
Streamlined Sales Tax		More than	More than
Section 32.070, Etc.	$0	$100,000	$100,000
Additional Revenue - DOR			
1% collection fee			
Section 32.086	$0	Unknown	Unknown
Revenue reduction - DOR			
Corporate tax rate reduction			
Section 143.071	($61,426,000)	($122,850,000)	($184,275,000)
Cost - DOR			
Streamlined Sales Tax			
Section 32.070, etc.			
Salaries	$0	($77,120)	($92,544)
Benefits	$0	($39,135)	($46,961)
IT	$0	($109,066)	$0
Equipment and expense	$0	($36,806)	($4,131)
Total	$0	($262,127)	($143,636)
FTE Change - DOR	0	4	4
Corporate Tax Reduction			
Section 143.071			
Salaries	($19,280)	($23,136)	($23,367)
Benefits	($9,784)	($11,740)	($11,858)
IT	($54,533)	$0	$0
Equipment and expense	($12,560)	($1,033)	($1,059)
Total	($96,157)	($35,909)	($36,284)
FTE Change - DOR	1	1	1
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($61,522,157)**	**(Less than $123,048,036) to Unknown**	**(Less than $184,354,920) to Unknown**

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FISCAL IMPACT - State Government (continued)	FY 2014	FY 2015	FY 2016
Estimated Net FTE Effect on General Revenue Fund	1	5	5
CONSERVATION COMMISSION FUND			
Additional Revenue - DOR Streamlined Sales Tax Section 32.070, Etc.	$0	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**$0**	**More than $100,000**	**More than $100,000**
PARKS, AND SOIL AND WATER FUND			
Additional Revenue - DOR Streamlined Sales Tax Section 32.070, Etc.	$0	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	**$0**	**More than $100,000**	**More than $100,000**
SCHOOL DISTRICT TRUST FUND			
Additional Revenue - DOR Streamlined Sales Tax Section 32.070, Etc.	$0	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**$0**	**More than $100,000**	**More than $100,000**

FISCAL IMPACT - Local Government	FY 2014	FY 2015	FY 2016
LOCAL GOVERNMENTS			
Additional Revenue - DOR Streamlined Sales Tax Section 32.070, Etc.	$0	More than $100,000	More than $100,000
Revenue Reduction - DOR 1% collection fee Section 32.086	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**More than $100,000**	**More than $100,000**

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which are subject to corporate income tax.

FISCAL DESCRIPTION

This proposal would make several changes to various tax provisions.

* The proposal would require the state and local governments to implement the Streamlined Sales Tax Act. The Streamlined Sales and Use Tax Agreement Act provisions become effective January 1, 2015.

* The Department of Revenue would retain 1% of the amount of any local sales or use taxes collected by the department for the cost of collection.

* A graduated reduction of corporate income tax rates would be provided.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration
    Division of Budget and Planning
Department of Conservation
Department of Natural Resources
Department of Revenue
Joint Committee on Administrative Rules
Department of Transportation
University of Missouri
    Economic and Policy Analysis Research Center

Ross Strope
Acting Director
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